

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 INT-08 GSA-02 CIAE-00

INR-10 NSAE-00 RSC-01 COME-00 TRSE-00 DRC-01 /070 W

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R 131114Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6415

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EGEN

SUBJECT: TIN PRICES

REF: STATE 238293

SUMMARY. RISE IN TIN PRICES ON LME PUZZLING. TIN PRICE RISES HAVE BEEN MATCHED BY PRICE RISES IN OTHER METALS. NUMBER OF NOT VERY SATISFACTORY EXPLANATIONS BEING GIVEN FOR THIS PHENOMENON. SPECIFIC ANSWERS TO QUESTIONS RAISED IN REFTEL PROVIDED. END SUMMARY

1. "LONDON TIMES" ON DECEMBER 5TH CARRIED STORY WITH FOLLOWING HEADLINE "DEALERS PERPLEXED BY SURGE IN METAL PRICES". THIS VERY APT SUMMARY OF SITUATION. NO ONE IN CITY REALLY SURE WHAT ARE REASONS FOR HUGE RISE IN LME PRICES WHICH INCLUDE ALL METALS SOLD ON EXCHANGE. WHILE EXPLANATIONS ABOUND, NONE OF THEM REALLY SATISFACTORY AND WE JUST AS PUZZLED AS EVERYONE ELSE.

2. IF ASKED, METAL DEALERS WOULD LIST SOME OR ALL OF FOLLOWING AS REASONS FOR RECENT HUGE METAL PRICE

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RISES.

A. WEAKNESS OF STERLING. AT LME WHEN STERLING UNDER SEVERE PRESSURE, TRADERS AND CONSUMERS FIND METALS AN ATTRACTIVE HEDGE AGAINST CHANGES IN EXCHANGE VALUES.

B. SERIOUS NEAR-TERM SHORTAGES OF PHYSICAL METALS. (THUS AS OF DECEMBER 10TH LME WAREHOUSE STOCKS OF TIN UNDER 3000 TONS WHICH FAR BELOW NORMAL.) SHORTAGE EVIDENCED BY BACKWARDATION, WITH CASH METALS SELLING AT LARGE PREMIUM OVER NEAR-TERM FUTURES. (IN CASE OF TIN, SHORTAGE ON LME EXPLAINED BY WILLIAMS HARVEY SITUATION AND MORE RECENTLY BY FUEL SHORTAGES AND STRIKES IN THAILAND.)

C. UNATTRACTIVENESS OF INVESTMENT ALTERNATIVES. WITH WORLD STOCK MARKETS DEPRESSED, COMMODITY MARKETS OFFER HAVEN FOR INVESTORS.

D. POSSIBILITY THAT ENERGY SHORTAGE WILL LEAD TO DECLINE IN PRODUCTION OF METALS BEFORE IT HAS ANY APPRECIABLE EFFECT ON INDUSTRIAL CONSUMPTION.

E. BELIEF THAT ENERGY SHORTAGE WILL LEAD TO INCREASED COSTS AND STOKES FIRES OF INFLATION, WHICH WILL IN TURN LEAD TO HIGHER COMMODITY PRICES.

3. NONE OF THESE EXPLANATIONS INDIVIDUALLY OR TAKEN AS A WHOLE VERY SATISFACTORY. AT TIME WHEN IT CLEAR THAT DEMAND FOR METALS WILL DECLINE SHARPLY, AS RESULT GENERAL WORLD ECONOMIC SLOWDOWN, METAL PRICES SHOULD BE GOING DOWN NOT UP, EVEN THOUGH INCREASED ENERGY COSTS MAY ADD marginally TO MINING AND SMELTING COSTS. SOME WELL-INFORMED OBSERVERS EXPECT PRICE BREAK TO COME SOON, AND YESTERDAY'S DECLINE IN THE PRICES IN LONDON AND PENANG MAY BE STRAW IN WIND. NONETHELESS, PREDICTING

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TIMETABLE FOR OVERALL METAL PRICE DECLINE EXCEPTIONALLY
DIFFICULT.

4. ANSWERS TO SPECIFIC QUESTIONS RAISED IN REFTEL AS
FOLLOWS:

THERE HAS BEEN UNUSUALLY HEAVY BUYING OF TIN ON LME
RECENTLY. ALL TRANSACTIONS ON LME TAKE PLACE BETWEEN
REGISTERED DEALERS, WHO STATE THAT THERE ARE FEW IDENTIFI-
FIABLE NEW FACES IN MARKET. THEIR REGULAR CUSTOMERS
ARE SIMPLY BUYING MORE HEAVILY. NOR IS THERE MUCH EVIDENCE
OF SPECULATIVE BUYING BY TRADERS. ONE PROMINENT LONDON
METAL MERCHANT, WHO VERY CLOSE TO TIN MARKET, TOLD US
THAT HE CLOSED OUT HIS PERSONAL TRADING ACCOUNT WHEN TIN
REACHED 1800 POUNDS, SINCE HE DID NOT THINK PRICES COULD
GO HIGHER. HE PROBABLY PRETTY TYPICAL OF PROFESSIONALS
HERE. THERE ARE RUMORS OF MYSTERIOUS ARABS BUYING UP
STOCKS OF TIN (AND OTHER METALS) BUT NOT RPT NOT SLIGHTEST
SHRED OF EVIDENCE TO SUBSTANTIATE THESE RUMORS. SOME
BUILD UP IN CONSUMER INVENTORIES, BUT NOT NEARLY ENOUGH
TO EXPLAIN PRICE RISES. THUS FAR WE KNOW OF NO TIN
SHIPMENTS AFFECTED BY LIMITED OFFICIAL USE

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SHIPPI PROBLEMS, BUT SCRAMBLE FOR NEAR-TERM TIN
PROBABLY ACCELERATED BY FEAR THAT SUCH PROBLEMS MIGHT
DEVELOP. BEST GUESS HERE IS THAT WILLIAMS HARVEY WILL
CLOSE DOWN AT END OF THE MONTH. ALWAYS POSSIBLE THAT
LAST MINUTE RESCUE ATTEMPT WILL BE MADE, BUT THIS NOW
INCREASINGLY UNLIKELY AND CERTAINLY IF IT BEING PLANNED
IT VERY WELL KEPT SECRET. ONE LIKELY CONSEQUENCE OF
SHUTDOWN OF WILLIAMS HARVEY IS UPGRADING OF LME TIN
CONTRACT SPECIFICATION, BUT THIS NOT YET FINALIZED,
WITH LME OFFICIALS STILL TALKING TO SMELTERS TO MAKE SURE
IT TECHNICALLY FEASIBLE.

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